MULTIMEDIA UNIVERSITY

STUDENT ID NO

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FINAL EXAMINATION

TRIMESTER 1, 2017/2018

PEM0034 – ESSENTIALS OF MACROECONOMICS

(All sections / Groups)

11 OCTOBER 2017
9.00 a.m. – 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of two sections in **EIGHT (8)** printed pages, including a formula page.
   Section A: **TWENTY (20)** multiple choice questions.
   Section B: **FOUR (4)** structured questions.

2. Answer **ALL** questions in the answer booklet provided.

3. Marks are shown at the end of each question.

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SECTION A: MULTIPLE CHOICE QUESTIONS (20 MARKS)

1. If net export decreases, then
   a. export increases and import decreases.
   b. gross domestic product rises.
   c. gross domestic product falls.
   d. gross domestic product remains.

2. Gross national product is
   a. the market value of all final goods and services, and intermediate goods in an economy produced by resources owned by people of that economy, regardless where the resources are located.
   b. the market value of all final goods and services in an economy produced by resources owned by people of that economy, regardless where the resources are located.
   c. the market value of all final goods and services in an economy produced within the boundary of a country, regardless who produced the goods and services.
   d. the sum of all factor payments.

3. Real Gross Domestic Product per capita measure a country's
   a. standard of living.
   b. economic well-being.
   c. purchasing power.
   d. economic growth.

4. Which of the following is NOT the reason why aggregate demand curve is downward sloping?
   a. Interest rate.
   b. Wealth.
   c. Law of demand.
   d. Exchange currency.

5. A three-sector economy consists of
   a. Households, Firms, and Foreign countries.
   b. Households, Firms, and Government.
   c. Firms, Government, and Foreign countries.
   d. Firms, Government, and Markets.

6. Given the consumption function: $C = 250 + 0.75Y$, what is the value of the investment multiplier?
   a. 1.33
   b. 4
   c. 5
   d. 0.25

7. If the tax increases, the new equilibrium national income will
   a. Increase.
   b. Decrease.
   c. Ambiguous.
   d. Remain unchanged.

8. To close an inflationary gap, the government should implement
   a. contractionary fiscal policy.
   b. expansionary fiscal policy.
   c. expansionary monetary policy.
   d. contractionary monetary policy.

9. Which of the following is NOT the tool that Central Bank used to control money supply?
   a. Required reserve ratio.
   b. Tax rate.
   c. Discount rate.
   d. Moral persuasion.

10. Given the required reserve ratio is 8%, what is the value of the money multiplier?
   a. 0.125
   b. 1.25
   c. 12.5
   d. 125.0

11. According to Keynes, if central bank reduces money supply, interest rate will
   a. Decrease.
   b. Increase.
   c. Remain unchanged.
   d. Ambiguous.

12. Given the working-age population is 300, number of discouraged workers is 20, number of employed persons is 125 and number of unemployed persons is 30. Calculate the unemployment rate.
   a. 10.00%
   b. 19.35%
   c. 16.67%
   d. 32.26%

Continued...

13. Which of the following statement is TRUE?
    a. Unemployment rate can be zero percent when there is full employment.
    b. Unemployment rate cannot be zero percent because of cyclical unemployment.
    c. Unemployment rate cannot be zero percent because of structural unemployment.
    d. Unemployment rate cannot be zero percent because of natural rate of unemployment.

14. Malaysia exports palm oil to Thailand, and imports rice from Thailand. Which of the following statements is probably FALSE?
    a. Malaysia has comparative advantage in producing palm oil.
    b. Thailand has absolute advantage in producing rice.
    c. Malaysia has the ability to produce more palm oil compared to rice using fewer resources.
    d. Thailand has the ability to produce less rice compared to palm oil using fewer resources.

15. Term of trade is the
    a. foreign currency ratio for two countries
    b. opportunity cost to produce a good.
    c. rate at which two goods will be exchanged.
    d. trading bargain between two countries.

16. If the Malaysia government levies a tariff on luxury cars, this is because the government is
    a. restricting the quantity of luxury cars that can be imported.
    b. restricting the quantity of luxury cars that Malaysian luxury car manufacturers can sell abroad.
    c. Raising government revenues from imports of luxury cares to Malaysia.
    d. All of the above.

17. If the current account balance is positive, and net transfer is $80 billion, then
    a. capital account must be negative.
    b. exports are greater than imports.
    c. official settlement account must be positive.
    d. imports exceed exports.

18. A U.K. citizen buys a Proton Suprima S car. Which of the following is TRUE?
    a. Credit item into Malaysian current account.
    b. Credit item into Malaysian capital account.
    c. Debit item into Malaysian current account.
    d. Debit item into Malaysian capital account.

Continued...

19. If Malaysia increases its export to Singapore, the supply of Ringgit will _____ and the demand for Ringgit will _____.
    a. Decrease; Increase.
    b. Increase; Decrease.
    c. Decrease; Decrease.
    d. Increase; Increase.

20. Suppose the following is the exchange rate between Ringgit Malaysia and the U.S. Dollar:
    Yesterday : USD 1 = RM4.50
    Today : USD 1 = RM4.25
    Which of the following statement is FALSE?
    a. Ringgit Malaysia has appreciated.
    b. US Dollar has depreciated.
    c. US Dollar becomes cheaper to Malaysians.
    d. Ringgit Malaysia becomes cheaper to Americans.

[Total: 20 marks]

Continued...

SECTION B: STRUCTURED QUESTIONS (80 MARKS)

Question 1

(a) Suppose the Malaysian government increases its spending on medical and educational expenses. Graphically explain the effect of this spending on the economy using an appropriate diagram.
(5 marks)

(b) Suppose Bikini Bottom Economy has the following model with consumption (C), investment (I), government expenditure (G) and tax (T):

$C = 100 + 0.8Y_d$
$I = 150$
$G = 200$
$T = 0.25Y$

Based on the information above, answer the following questions:

(i) Derive the saving function. (3 marks)

(ii) Determine the equilibrium national income using expenditure approach. (4 marks)

(iii) If the full employment national income is 1000, identify the type of gap that Economy Bikini Bottom is encountering. (2 marks)

(iv) Based on part (b)(iii), suggest a solution to the government by calculating how much the government should increase or decrease its spending. (6 marks)

[Total: 20 marks]

Question 2

(a) Suppose Malaysian economy is experiencing recession. Discuss a policy and a monetary control tool that Central Bank of Malaysia should implement in order to stabilize the economy. Use appropriate diagrams to explain your answer.
(10 marks)

Continued...

(b) The World Bank reported the data of consumer price index in Malaysia from 2015 to 2016. The data is presented in **Table 1** below.

Table 1

Year	Consumer price index (2010 = 100)
2014	110.5
2015	112.8
2016	115.2

Based on **Table 1**, answer the following questions:

(i) Calculate the inflation rate in years 2015 and 2016. (4 marks)

(ii) If you have deposited a fixed deposit in a local bank with an interest rate at 3.3% per annum in 2015, determine whether you have earned from the fixed deposit in 2015. Justify your answer. (3 marks)

(iii) If you have invested in a mutual fund with an interest rate at 1.8% per annum in 2016, determine whether you have earned from the mutual fund in 2016. Justify your answer. (3 marks)

[Total: 20 marks]

Question 3

(a) **Table 2** shows the production of coconut oil and deep sea fish for Japan and Philippines before trading.

Table 2

Country	Coconut oil (thousands of liters)	Deep sea fish (Thousands of kilograms)
Japan	1500	2000
Philippines	3500	2200

Based on **Table 2**, answer the following questions:

(i) Determine the country that has absolute advantage in producing coconut oil and deep sea fish respectively. Explain your answer. (4 marks)

(ii) Determine the country that has comparative advantage in producing coconut oil and deep sea fish respectively. Support your answer with necessary calculations. (6 marks)

(iii) Calculate the terms of trade in terms of deep sea fish, and coconut oil respectively. (4 marks)

Continued...

(b) Briefly explain **THREE (3)** types of non-tariff trade barriers. (6 marks)

[Total: 20 marks]

Question 4

(a) **Table 3** presents the balance of payment in Madagascar.

Table 3

Items	Malagasy ariary (million)
Exports of goods	480
Statistical discrepancy	0
Outflow of Madagascar capital	8
Current account balance	- 55
Exports of services	25
Inflow of foreign capital	46
Imports of goods and services	500
Income from Madagascar assets abroad	32

Based on **Table 3**, answer the following questions:

(i) Calculate the value of capital account balance. (2 marks)

(ii) Calculate the value of net unilateral transfer abroad. (3 marks)

(iii) Calculate the official reserve balance. (3 marks)

(b) Graphically explain the impact of each of the following transactions on the Ringgit Malaysia currency market.

(i) Malaysians' on a tour around Japan. (4 marks)

(ii) Thailand increases their demand on Malaysian palm oil. (4 marks)

(iii) A Singaporean company purchases a container of fabrics from China. (4 marks)

[Total: 20 marks]

End of Questions

Formula Sheet

Government spending multiplier (with lump-sum tax) $= \frac{1}{MPS}$
Government spending multiplier (with progressive tax) $= \frac{1}{MPS + MPT}$
Inflation rate $= \frac{CPI_t - CPI_{t-1}}{CPI_{t-1}} \times 100\%$
Real interest rate = Nominal interest rate – Inflation rate

End of Paper